



County of Los Angeles  
Department of Public Social Services

Bryce Yokomizo  
Director

November 24, 2003

TO: Each Supervisor

FROM: Bryce Yokomizo, Director

SUBJECT: STATE RECOUPMENT OF ACTUAL INTEREST EARNED ON  
PERFORMANCE INCENTIVES

This is to inform you that the State has recouped the final \$8.8 million from Los Angeles County in interest earned by the County on CalWORKs Performance Incentive funds from October 1, 2001 through June 30, 2002.

#### Background

An interest bearing Trust Fund was set up for Performance Incentive (PI) funds earned by the County and paid to us by the State. On December 19, 2001, the State advised counties that California violated federal regulations by paying counties for Performance Incentives earned in advance of expenditures and counties were to repay unspent principal and interest earnings.

Differing opinions existed on the amount of interest to be returned by Los Angeles County. The Auditor-Controller believed, and the State later confirmed that the actual \$42.8 million interest earned was to be repaid, while staff from my Department and the Chief Administrative Office relied on an interpretation of the Cash Management Improvement Act which states that interest shall be calculated at a rate equal to the bond equivalent rates of 13-week Treasury Bills auctioned during the period for which interest is calculated. The actual interest earned by the County exceeded the applicable Treasury Bill rate.

In January 2002, DPSS made a first payment to the State of \$31.7 million and in July 2002, DPSS made a second payment of \$2.3 million based on Treasury Bill rate computations, leaving in question disposition of \$8.8 million in actual interest earnings. The State's final decision determined that the actual interest earned on the advances had to be remitted to the federal agency and indicated that the County's reliance on one section of the Cash Management Improvement Act was misplaced because it applies to the assessment of interest penalties in situations where a state has drawn federal funds prematurely.

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**Impact**

The State has recouped the remaining \$8.8 million in actual interest earned on PI funds by offsetting the amount against the CalWORKs Assistance advance received October 2003. The reduction in the CalWORKs Assistance advance does **not** pose a problem to my Department's Budget or to the availability of PI NCC for projects your Board approved this fiscal year. The actual interest earnings had been set aside pending final resolution of the issue and had not been committed to any programs or services.

BY:gd

c: Chief Administrative Officer  
Auditor-Controller  
County Counsel  
Executive Officer, Board of Supervisors